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February 8, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.
Washington, DC 20551

Re: Docket No. R-1404 and RIN No. 7100 AD63

Dear Secretary Johnson,

As Chairman and CEO of Republic Bank & Trust Company ("Republic") headquartered in Louisville, Kentucky, I thank you for this opportunity to comment on the Interchange Fee proposal of the Federal Reserve. Republic is a Kentucky state chartered community bank with a sister federally chartered savings bank located in the state of Florida. Republic's holding company, Republic Bancorp, Inc. is a $3.6 billion asset bank holding company with two banking subsidiaries that collectively are comprised of forty-three (43) banking centers in Kentucky, Indiana, Florida and Ohio, employing in excess of 750 employees. I am writing this letter to voice my opposition to the proposed rule referenced above.

As you know, the economic crisis this country has been facing was fueled by a number of factors, but no one would suggest that the actions of the country's many community banks led to these economic problems. However, the increased federal regulatory intervention in our banking business and the ever increasing and seemingly non-ending regulatory intrusion into our basic core banking income has to cease or there will be no community banks left to support or sustain long term economic growth.

I don't need to tell you the important role in our economic system that is played by community banks such as Republic. We have been hit hard by federal regulation recently as you know. Our regulatory compliance costs have skyrocketed and our sources of income such as our net interest income, mortgage origination income and deposit account fee income have been seriously impacted by recent federal regulatory actions. Community bankers are concerned about their long term viability, and we trust you are concerned about it also. We cannot provide banking services for free; someone has to pay for the services and products we provide or we cannot continue to operate. It is really that simple.

Now we find ourselves facing yet another regulatory burden; the needless and punitive attack on our interchange fee income. You can be assured that community banks will be adversely affected by the Federal Reserve proposal and that all community banks, like us, will have to increase fees to consumers across our banking product lines to compensate. If this proposal is enacted, we will immediately move to set new maintenance and other fees on checking accounts and other bank products and services because the proposal does not permit Republic to cover the cost of providing debit and credit card transactions. If this proposal becomes a reality, we are left with no choice to do otherwise. We also think you should take into account that low and moderate income customers will find it more difficult to maintain a bank account under an increased fee structure and will be disproportionally adversely affected as many will be forced into more expensive, less convenient, non-traditional banking services. Simply put, free checking will be a product of the past.

Of course, one major source of consumer credit, the credit card, is also largely supported by interchange fee income. Republic's 6,500 credit card customers, which includes individuals and small businesses, currently enjoy a low interest rate and no annual fees because Republic could rely on the interchange fee to support this product. There will be no choice but to increase the fees on our credit card product as well if the ability of Republic to realize the interchange fees that it currently realizes is diminished.

We are concerned that Congress passed the Durbin Interchange Amendment without hearings or any consideration of the Amendment's impact on consumers, small business, the economy or banks. While it is apparent that the Durbin Amendment purports to exclude banks with less than $10 billion in assets from interchange rate regulation, market forces will effectively and ultimately apply the Fed rules to community banks like Republic as well. Also, in setting its proposed regulatory limits on interchange fees, the Fed did not include the costs of operating the debit system, fraud and fraud prevention costs, system improvement costs or even consider a reasonable rate of return on bank investment.

Banks and other debit and credit card issuers stand to lose roughly 70 percent of their debit card interchange revenue under the Fed's proposed rule implementing the ABA-opposed Durbin Amendment as proposed with a transaction fee cap rate of $0.12 per transaction. The transaction fee is determined presently by the type transaction (i.e. signature vs. pin) and the network that is used. Specifically, Republic will stand to lose approximately $300,000 per month or $3.6 million annually on its debit cards alone, with no reduction in expenses. Republic incurred $1,740,000 in costs during 2010 related to our debit card operations. Generally, Republic's annual costs more approximate $2,300,000 as we experienced a one-time non-recurring credit from our third party servicer in 2010. Of the costs we incurred last year relating to debit card issuance and processing, $367,000 was for fraud detection and prevention. This data Republic is providing is based on Republic's net interchange fee average of $0.351 per transaction. If the Federal Reserve places its proposed cap on the interchange fees, it will ultimately equate to a 66% reduction in interchange fee income for Republic on debit cards alone. If community banks like Republic are to be protected, and the Fed proceeds to invoke a rate cap on large institutions, it will be incumbent on the Federal Reserve to make sure that no retail outlet is permitted to exclude the credit and debit cards of community banks from being presented and utilized due to their higher rates. Your final rule must provide that the interchange fees presently earned by smaller banks are protected from reduction by any third party payers.

Your proposed rule caps the price issuers can charge retailers at between 7 and 12 cents per transaction, but as previously stated, it fails to take into account a bank's costs of providing the services. The so-called "exemption" for institutions with less than $10 billion in assets simply does not work. Marketplace realities will drive business to the lowest-cost providers. If the rule is approved as proposed, large retailers will reap the profits of debit-card transactions without paying for the value they provide. They will not pass their savings on to consumers and as they pocket more profits, consumers will be forced to pay more for banking services that are currently subsidized by interchange fee revenue. This result is simply a matter of common sense to foresee.

In conclusion, I urge the Board to exercise discretion to the maximum level permitted under the statute. The Board should include in the calculation of the fee: network fees; the cost of inquiries and disputes; fraud losses and fraud prevention costs; fixed costs, including capital investments; and a reasonable profit. Any fee that does not take into account these factors is not a "reasonable" fee as mandated by the statute. Congress clearly never intended the interchange fee provision to adversely affect the income of community banks like Republic and you should not use your regulatory authority to preempt the will of Congress or to create further damage to the nation's banking system. Again, I thank you for the opportunity to comment.

Sincerely,

Steven E. Trager

cc:

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